



PRESS RELEASE

House Armed Services Committee

Floyd D. Spence, Chairman

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STATEMENT OF CHAIRMAN FLOYD SPENCE (R-SC) FULL COMMITTEE HEARING ON FY 2000 BUDGET SECRETARY COHEN AND GENERAL SHELTON

Tuesday, February 2, 1999

Today the committee starts its oversight of the fiscal year 2000 defense budget. While I believe that our military forces continue to confront a series of worsening problems, the President's admission that the services were facing serious quality of life, readiness and modernization shortfalls, and his recognition that increased defense spending would be necessary to address them, marked an important milestone last fall.

And there is some good news. The budget request does call for an \$84 billion dollar top-line increase over the next six years. Of course, the President has indicated that \$80 billion dollars of this increase is expressly predicated on social security reform as well as on renegotiation of the Balanced Budget Act. With fairly significant "strings" like this attached, it is difficult to judge just how serious the President is about addressing even the limited share of the Chiefs' unfunded requirements this budget professes to do.

Mr. Secretary, as I have indicated in the past, you deserve a lot of the credit within the executive branch for getting the Administration to at least recognize the seriousness of readiness problems and, more recently, to admit that the Rumsfeld Commission was right about the seriousness of the missile threat. Likewise, you deserve much of the credit for convincing the Administration to at least begin confronting defense shortfalls and the need for increased spending.

The bottom line, however, is that this budget falls well short of adequately addressing the services' unfunded requirements.

This budget does not represent a \$12 billion dollar increase in fiscal year double zero, or a \$112 billion dollar increase over six years. Instead, it proposes a \$4 billion dollar increase next fiscal year (and I would note that \$2.9 billion dollars of this \$4 billion dollars is perhaps suspect) and an \$84 billion dollar increase over the six year plan. The difference is about \$28 billion dollars worth of assumed savings and reductions from within the budget. Even if valid, these assumed savings in no way represent increased top-line spending. And as I just indicated, the degree to which the President is serious about the \$84 billion dollar increase remains an open question in my mind.

Last fall the Chiefs identified more than \$150 billion dollars in unfunded requirements, and I suspect that figure is understated since several of them have since testified that problems are getting worse. Even if every dime of assumed savings from within the budget materialize – from inflation to fuel to BRAC – the six year plan still falls more than \$40 billion dollars short of meeting the services’ requirements – which translates, on average, to about \$7 billion dollars per year. If the assumed savings do not materialize, the six year plan is almost \$70 billion short, or almost \$12 billion dollars per year.

Mr. Secretary, despite assertions that this budget represents the first sustained increase since 1985, two of the next three budgets (including the fiscal year double zero budget before us) fail to keep pace even with record low inflation. They represent real decline. There is no sustained growth in this budget proposal until beyond fiscal year ’03, which occurs after both the President’s term and the Balanced Budget Act expire. In fact, more than \$50 billion of the proposed top-line spending increase occurs after the Balanced Budget Act expires and on the watch of a future Administration.

Unfortunately, the picture is clouded further by the fact that the budget (certainly the fiscal year double zero budget) appears to rely heavily on assumed savings, spending cuts and outlay gimmicks.

This budget is adept at “giving with one hand while taking away with the other.” For instance, in order to fit the budget under next year’s spending caps, the President has proposed rescinding \$1.6 billion dollars of prior year defense spending – no specifics, just a cut. Without getting into the technical details, the outlays associated with the proposed rescission will likely result in many more billions of dollars in reductions (certainly more than \$1.6 billion) to the investment accounts.

Also tucked away in this budget is a proposed rescission of almost \$900 million dollars of missile defense and intelligence funding agreed to by the President in last fall’s omnibus appropriations bill. These rescissions are being proposed to offset the costs associated with the Wye River Agreement. We have been assured that these funds will be reprogrammed in the outyears, but unlike already enacted emergency spending, future spending has to come out of someone’s “hide.” In essence, the Administration is breaking last fall’s budget “deal,” sacrificing congressional priorities and making DOD pay for it twice.

On another front, the Administration has gone to great lengths in its package of pay and retirement proposals to demonstrate its commitment to taking better care of the troops and their families. Yet, this budget proposes to cut an already anemic military construction program by a whopping 40 percent next fiscal year. This \$3 billion “MILCON massacre” was apparently necessitated last December by the fact that the budget was \$3 billion dollars short of the desired \$12 billion “increase” in fiscal year double zero. This is a shell game that will decimate the military construction accounts, likely compel a construction freeze (or worse), and will almost certainly increase the costs of hundreds of construction programs.

In the area of contingencies, Bosnia operations are only funded for about the first 18 months of this six year plan. I hope this means that the Administration has decided to pull the ground troops out of Bosnia in fiscal year ’01. Instead, I suspect it means that billions of dollars for future Bosnia operations are simply unfunded and will have to be budgeted later. It is unclear to me whether these funds will come “out of the services’ hides,” or whether the President will provide resources above the top-line?

There is also the question of \$25 billion in assumed economic savings based on lower than anticipated inflation and fuel costs. As I indicated to General Shelton two weeks ago, it is one thing to “bank” such savings once economic assumptions have proven inaccurate, it is quite another thing to project the sustainment of

historically unprecedented economic conditions six years into the future and to build the hoped-for savings into the services' budgets.

Just last week Alan Greenspan testified before the Senate and once again reminded us that economic assumptions and predictions have a consistent and remarkable way of proving us all wrong. Speaking personally, I hope my investments return 40% each of the next six years, but I am not prepared to bet my grandchildren's future on it. To count on \$25 billion in inflation and fuel savings as the source of future funding for critical defense needs is a gamble. If the savings fail to materialize, where will the funding necessary to fill in the hole come from? The services' unfunded requirements are real, but the savings may never be.

Mr. Secretary, while the budget may look good, one does not have to scratch very deeply to identify problems ranging from its being \$70 billion short of the Chiefs' requirements to its heavy reliance on assumed savings, spending reductions and gimmicks. If each annual budget submission in the years ahead relies as heavily on assumptions and gimmicks as the fiscal year double zero budget appears to, the services are in trouble.

And finally, as I indicated earlier, even a cursory look at the budget materials indicates a number of outlay problems that are being dumped in Congress's lap. If recent history is any indication, CBO will score this budget \$4 - \$5 billion higher in outlays than will OMB. But I fear this may not be the end of it. This budget increases spending by more than \$8 billion dollars in the high outlay personnel and O&M accounts, yet total outlays for the entire budget function decline by about \$3 billion dollars. This fact alone ought to be a warning flag alerting us all that there is some "creative accounting" ahead. In the context of an already serious CBO/OMB outlay scoring mismatch, this kind of creative accounting could easily necessitate \$12 - \$15 billion dollars in budget authority reductions to the President's request just to stay within the spending caps.

It will take some time to understand the budget in detail. I just fear what we will discover is that for every step the President wants us to believe he has taken forward, the hard reality of the budget will represent two steps backwards.

Mr. Secretary, I hope I am wrong.

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